INDIANA
INVESTMENT WATCH

Understanding Mutual Funds

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WHAT IS A MUTUAL FUND?

A mutual fund is an investment company that pools money from various investors and uses that money to purchase stocks and bonds. These various stocks and bonds go into what is known as a portfolio. An investor interested in choosing a mutual fund will find many options — there are more than 10,000 mutual funds in the United States alone. Because a mutual fund combines money from many different investors, mutual fund investing allows an individual to diversify his or her investments without spending a large amount of money.

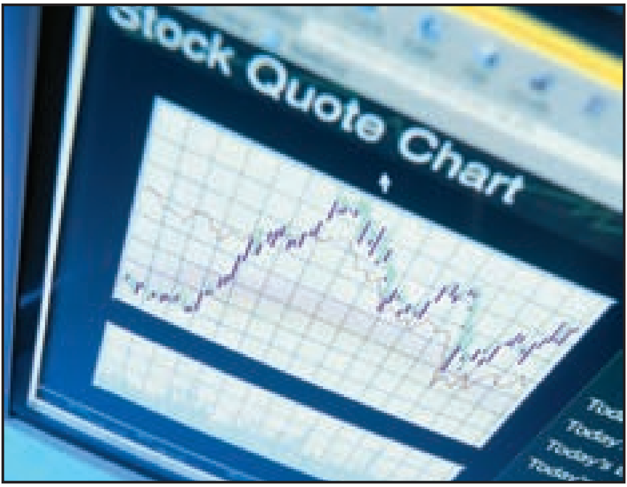
Mutual funds are one of the most popular forms of investments in today's market. It is estimated that by the mid-1990s, investors had placed considerably more than $1 trillion into mutual funds. As with any kind of investment, mutual fund investing carries risk. It is important to remember that different kinds of mutual funds carry different levels of risk. Mutual funds are like other investments — the higher the potential gain, the higher the risk.

When choosing a mutual fund, the investor will have the advantage of using a fund manager. This manager will have a level of knowledge and expertise that the investor may not have. The fund manager charges a fee for managing the portfolio and decides what securities to buy and sell and when to do so. The manager is responsible for carrying out the daily activities that occur within a fund. Regardless of how much an investor places into the mutual fund, he/she will receive the same built-in portfolio management from their manager.

BE AN INFORMED INVESTOR

It is important that an investor who chooses to invest in a mutual fund takes the time to research what investment is best for him/her. Furthermore, once the investor has chosen a particular fund, it is extremely important that he/she read over the fund information very carefully. Secretary of State Todd Rokita's office reminds all investors to investigate before they invest. Knowledge is the investor's best weapon in trying to prevent losses and fraudulent activities. It is also important that investors are not misled by the name of a fund (thinking it sounds safe or appears to have low-risk) and that an investor not base his/her decisions solely on advertising and sales materials. The U.S. Securities and Exchange Commission (SEC) does not review the sales literature put forth by the funds. It is always necessary to do in-depth research by reading the prospectus and Statement of Additional Information (SAI). Both of these materials are reviewed by the SEC and will provide a clearer picture of what the fund is offering.

Additional information regarding mutual funds is offered by the North American Securities Administrators Association (NASAA). Please visit the Web site at www.nasaa.org. Hard copies of this information may be obtained through Secretary of State Todd Rokita's office. Please contact the Investor Education Coordinator at 317.232.0734.



TEN TIPS ON BUYING MUTUAL FUNDS

1. Determine your financial objectives and how much money you can afford to invest.

Make sure the fund's objectives coincide with your own. Do not change your objectives or exceed the amount set aside for investment without careful consideration.

2. Research and obtain all available information before you invest.

Request a copy of the fund's prospectus and read it carefully. Also look over the SAI and the latest shareholder report from each fund you are considering.

3. Determine the amount of all sales charges, management fees and administrative expenses before you invest.

Some funds charge for reinvestment of dividends and capital gains distributions, which can add to your costs. See the fund's prospectus for a description of all fees and expenses.

4. Never treat the risks of investing in mutual funds lightly.

All mutual funds involve some degree of risk. Unlike money market accounts and certificates of deposit, mutual funds are not federally insured.

5. Exercise caution when considering investing in funds with junk bond portfolios.

While junk bonds pay a high-rate of return, junk bond companies are more volatile and more likely to default on bond payments. These factors can seriously affect the fund's performance.

6. Do not invest in periodic payment plans unless you are absolutely certain that you will hold your shares for a long time.

If you sell or redeem early – or do not complete the plan – you may find that a large portion of your investment has gone to pay sales charges.

7. Learn the consequences of redemptions.
Besides the sales charges for redeeming periodic payment plans before completion, some funds may charge a redemption fee or a proportion of your investment, known as a contingent deferred sales load.

8. Call Indiana Secretary of State Todd Rokita's office at 800.233.8791 to find out whether your broker/financial advisor and the mutual fund are properly registered in Indiana.
Secretary Rokita's office can tell you if a company or an individual has failed to properly register or if there is a history of trouble with securities regulators. If there is a history of problems, this should serve as a red flag to prospective investors.

9. Even after investing in a mutual fund, review the shareholder reports and any amendments to the prospectus and the SAI.

10. If you believe you have encountered investment fraud, call Secretary Rokita's office at 800.233.8791.
If something does not seem right, or if you are not satisfied with the answers you have received, contact the Secretary of State's office. We are here to help you!

The Honorable Todd Rokita
Indiana Secretary of State

The Office of the
Indiana Secretary of State

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